

## Abstract

The objective of this dissertation was to examine and explain the effect of market orientation toward firm's Innovation, product quality, competitive advantage and firm's performance of Small Medium Enterprise in East Java

Sixty companies were taken as the samples by using proportional area random sampling. Its respondents were the managers and individual customers of the sample companies. The answers obtained from respondents in conformity with their predetermined developing indicators are analyzed by using partial least square, applying the program package of Smart PLS.

The result, is that the eight supported hypotheses are : 1. market orientation positively affect product quality; 2. market orientation positively firm's innovations; 3. market orientation positively affects firm's competitive advantage; 4. firm's innovations positively affects product quality product quality; 5. firm's innovations positively affects firm's competitive advantage; 6. product quality positively affects firm's competitive advantage; 7. product quality positively affects firm's performance; 8. firm's competitive advantage positively affects firm's performance. The two rejected hypotheses are: 1. market orientation positively affects firm's performance and 2. innovations positively affects firm's performance.

The important empirical findings are also found as follows: Some factors may be affected by Indonesia culture considering that furniture is not a fashion product. Moreover, due to the high inflation condition of Indonesia economy which leads to the decreasing of consumer's purchasing power, sales volume is relatively small despite of firm's market orientation. The entry of wooden furniture from China causes the changing of market orientation does not change the firm's performance. From the finding, it can be concluded that environmental factors, such as level of competition and economical condition do not make market orientation affects firm's performance.

**Key Words:** Market Orientation, Firm's Innovation, Product Quality, Competitive Advantage and Firm's Performance